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DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
JANUARY 5 TO JANUARY 9, 2009

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¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of January 5-9, 2009, including the following:

-- India's Exports Continue to Fall in December
-- Export Tax Makes Indian Basmati Rice Expensive
-- Government Hopeful on Insurance Sector Bills
-- GOI Mandates BIS Standards for Specific Steel Products
-- Indian Patent Office to Hire 1,500
-- Pepsico Allowed 100% FDI
-- Truckers' Strike Puts Brakes on Commerce
-- As Exports Dip, Apparel Industry Requests More Stimulus
-- HAL puts MRO plans on hold
-- Karnataka government talks tough on Kannada signage

India's Exports Continue to Fall in December

¶2. (U) According to preliminary Government of India (GOI) estimates, Indian exports declined 1 percent in December 2008 to $11.2 billion, compared to the preliminary estimates of $11.3 billion in the year ago period (December 2007). Indian export growth is now negative, with an October 2008 decline of 12.1 percent and a 9.9 percent decline in exports in November 2008. One caveat to the less-than-expected decline for December 2008 is that the final export figures for December 2007 were later revised upwards by 21 per cent to $12.82 billion. If we compare this final December 2007 figure with the initial estimate of December 2008, exports show a decline of 12 percent year over year. The final export numbers for December 2008 will be released in February 2009. Cumulative exports for April-December 2008 are now estimated at $130.6 billion.

¶3. (U) Commerce Ministry officials are quoted as saying that the export situation is expected to improve during the remaining quarter of the current fiscal year (January-March 2009), but after April, could become worse. Acknowledging that even if export performance improves in the next quarter, it would be difficult to achieve the fiscal year target of $200 billion in exports, the GOI has revised its export target to $170-175 billion for IFY 2008/09. Exports

totaled $162 billion in IFY 2007/08. The increase in exports from April-August 2008 was over 35 percent, after which the slowdown in the world economy took a toll on India's export performance. In September 2008, export growth decelerated to 10.4 percent, and in subsequent months turned negative.

¶4. (U) The Federation of Indian Export Organizations (FIEO), one of the main business chambers representing exporters, has attributed the decline in exports to waning demand from key overseas markets, including the US and Europe. Labor-intensive sectors including textiles, gems & jewelry, handicrafts and chemicals, which account for nearly 30 percent of India's total exports, continue to register dismal performance since the global economic slowdown. According to the FIEO, exports of textiles declined 13 percent during December 2008 while chemicals as well as gems and jewelry decreased by nearly 21 percent. Handicraft and handloom exports declined sharply by 64 percent. FIEO has reported that the decline in exports could lead to 10 million job losses if the situation does not improve. Industry lobby groups project widespread job loss, but no official estimate of the extent of retrenchment is available as there is no monthly or quarterly employment survey in India.

¶5. (U) In response to strong lobbying efforts by exporters, the GOI recently announced a fiscal package, including restoration of duty neutralization rates (like Duty Entitlement Passbook Scheme - DEPB), as well as a Rs.50 billion credit line to the Exim Bank, to provide loans to exporters at subsidized rates. However, the industry is not satisfied with the package and has further demanded an extension of loan terms, a 3-percent increase in the DEPB and Duty Drawback rates, income tax exemption on export profits, and export related loans at 7 percent. The government has also released Rs.8 billion to be paid to exporters as a duty drawback and refund of central sales tax. Simultaneously, the Directorate General of Foreign Trade (DGFT) has notified an extension of the popular Duty Entitlement

Pass Book scheme for refund of taxes to exporters, until December ¶2009.

Export Tax Makes Indian Basmati Rice Expensive

¶6. (U) Indian basmati rice traders are facing difficulty due to the large stocks of rice they are holding (worth nearly Rs.50 billion) for which they cannot find buyers on the global market, given the traders' high acquisition costs. Some trade experts have commented that, following the imposition of export taxes in mid-2008 due to the food crisis, Indian basmati has become $400 per ton more expensive than Pakistani basmati. According to rice exporters, traditional buyers from the Mideast and Europe have bought only about 10 percent of what they usually buy at this time. Trade experts also noted that after peaking in June 2008, world rice prices have declined significantly, with prices dropping by over 50 percent between September and November 2008. According to official data, India's basmati exports have dipped about 5 percent in the current fiscal year to December.

¶7. (U) The GOI imposed an export tax or 'cess' of Rs.8000/ton ($166/ton) on rice in April 2008 in the wake of domestic price spikes. In addition to this tax, basmati exporters are required to meet the minimum export price of $1,200/ton for contracting a shipment. Basmati is a single-season crop and, generally, traders enter into export contracts during the October-December period to finance paddy bought from farmers. Not expecting the dual burden of an export cess and the competitive pressure of a falling Pakistani rupee, Indian exporters reportedly paid high prices to farmers in India compared to their counterparts in Pakistan. In addition, the global recession, plunging commodity prices, and shrinking demand have made Indian basmati rice uncompetitive in the international market. A media report quoted a trader from a top basmati exporting company, as stating "the supermarket shelves now adorned by Pakistani rice in Europe were fought and won [by Indian basmati rice] after decades of investment and hard work."

Government Hopeful on Insurance Sector Bills

¶8. (U) Media reported this week that the UPA government is working hard towards passing the two insurance sector bills, namely, the Insurance Laws (Amendment) Bill 2008 and the Life Insurance Corporation (Amendment) Bill 2008 in the forthcoming session of Parliament to be convened on February 23. Both of these bills were introduced on the last day of the December Parliamentary session and were referred to the Parliamentary Standing Committee on Finance (headed by BJP's Ananth Kumar) with a request that the report be submitted by the first day of the next session. If the standing committee submits its report according to the given schedule, the bills could get passed in the forthcoming session. (Note: Generally, a standing committee is given three months to submit its report. End note.)

¶9. (U) The Insurance Laws (Amendment) Bill, 2008 proposes to increase the FDI limit in insurance companies to 49 per cent from 26 percent, allow foreign re-insurers to open branches in India and remove restrictions that require Indian promoters to reduce their equity to 26 percent by the tenth year of operations. The Life Insurance Corporation (Amendment) Bill proposes to enhance the government-owned capital base to $2.1 million from $1 million. Government-owned general insurance companies will also be allowed to raise capital from the market through preference shares, bonds and debt. The BJP has not yet indicated its stand on the two bills, but most likely they will allow the bills to be passed. Meanwhile, the Left parties are not in favor of increasing the FDI in the insurance sector and have viewed the effort to raise Life Insurance Corporation's equity capital as an enabling step towards future disinvestment in the government-owned insurance company.

GOI Mandates BIS Standards for Specific Steel Products

¶10. (U) The GOI has made Bureau of Indian Standards (BIS) certification mandatory for specific steel products, under two Steel

and Steel Products (Quality Control) Orders 2008 issued by the Ministry of Consumer Affairs, Food and Public Distribution. Both orders were issued on September 9, 2008, with the first becoming effective September 12, 2008, and the second order coming into force on February 12, 2009. The orders make mandatory a BIS standard mark for 17 specific steel products, failing which steel producers could be punished under the Bureau of Indian Standards Act 1986. The order covers semi-finished steel for re-rolling, long products used in infrastructure and construction, steel plates for pressure vessels and boilers, electrical steel sheets for electrical machines, and tinplates, among others. Bars and rods of diameter and thickness less than 6mm and structural angles (below 50mmX50mmX6mm), which are normally made from re-rolling scrap and used for light applications, are exempted from the BIS certification requirement. Steelmakers were to apply to the BIS within 45 days of the notification of the order for obtaining the license for using the standard mark.

¶11. (U) Previously, it was not mandatory for steelmakers to get the certification. Industry sources have stated that the certification requirement is expected to apply only to manufacturers and consumers in the organized sector initially. Various associations of secondary steel producers have reportedly submitted presentations against the implementation of the orders. Media reports have quoted the Steel Secretary as saying that the GOI would like to implement the order in a phased manner to give small steel units time to adjust, but that ultimately all steel items in the country will be required to meet quality standards. The Ministry of Consumer Affairs originally prepared this Order in November 2007, but given opposition from small steel manufacturers, kept extending the notification of the order.

Indian Patent Office to Hire 1,500

¶12. (U) The Indian Patent Office announced this week plans to hire 1,500 new employees over a period of eight years. The new hires will address a shortage in patent examiners and the rise in patent applications, which has increased by more than 20 percent annually. It is anticipated the Patent Office will fill 200 vacancies this year. According to media sources, the number of government patent

examiners in 2008 fell from 150 to 118. The shortage is in part due to government examiners being lured away by significantly higher salaries at law firms and multinational companies with large research departments, where former patent examiners act as patent agents. A lack of training institutions and specialized courses in intellectual property and patent law has also caused the patent examiner shortage, although the government has recently established the National Institute of Intellectual Property Management and the Rajiv Gandhi School of Intellectual Property Law at Kharagpur. Classes from both programs will graduate in 2009. In fiscal year 2008, 35,000 patent applications were filed. By March 2009, 45,000 more patents applications are anticipated.

Pepsico Allowed 100% FDI

¶13. (U) According to local media sources, the Cabinet Committee on Economic Affairs (CCEA) has granted a waiver to Pepsico Holdings, allowing for a $50 million foreign direct investment (FDI) by exempting the company from having to divest 49 percent of its Indian firms to domestic companies. The CCEA's decision was possible due to the guideline set in 2000 allowing for 100 percent FDI for companies in the food processing sector. When Pepsico and Coca Cola came to India in 1997, both companies were asked to divest 49 percent of equity in their Indian firms to domestic companies within five years. Coca Cola immediately complied by divesting 49 percent to its bottling subsidiary, Hindustan Coca Cola. Pepsico applied to the Foreign Investment Promotion Board for a waiver from the divestment requirement and the case was subsequently referred onto the CCEA and deliberated by the Food Processing Ministry and the Department of Industrial Policy and Promotion. CCEA has not yet decided whether or not the provision allowing 100 percent FDI will

also be applied to Coca Cola India.

Truckers' Strike Puts Brakes on Commerce

¶14. (U) At midnight on January 4, local media reports an estimated 4 million truckers went on strike across the country as talks broke down with GOI on fuel prices and taxes. As the government provided two bailout packages to industries, truckers claim they too have struggled to repay loans with high fuel prices, numerous taxes, and high tire costs. The All India Motor Transport Congress (AIMTC), whose members own and run 4.8 million trucks, are demanding a reduction in diesel prices by Rs 10, waivers on interest for truck financing, exemptions from service and toll taxes, and a single permit system for nationwide travel. The strike has primarily taken place in Tamil Nadu, Andhra Pradesh, Punjab, Haryana, and Karnataka, but has also partially been invoked in Delhi, Rajasthan, Madhya Pradesh and Gujarat.

¶15. (U) With more than 40 percent of freight in India moving by road, if the strike continues, it threatens to further push up prices on essential goods and hurt commerce. Some local media reports have noted increases in the price of fruits, vegetables, sugar, and edible oils, but there has yet to be any significant impact on the supply of essential commodities. Inflation may also be a concern: the National Council for Applied Economic Research (NCAER) has reported that a continuation of the strike may push up inflation by 50 basis points. The Federation of Indian Export Organizations (FIEO), the export lobby, claims Rs 2000-2500 crore (USD $412 - $515 million) of export consignment is transported by road every day and as the strike continues, exporters will lose Rs 400 - 500 crore (USD $80 - $100 million) per day. Already coping with decreases due to the economic slowdown, exporters are concerned delays in shipments will result in cancelled orders and have asked for a quick resolution to the dispute.

¶16. (U) In response to the strike, the central government has advised states to take measures in line with the Essential Commodities Act (ECA), the Essential Services Maintenance Act (ESMA) and National Security Act (NSA) to ensure that supply of essential commodities are not disrupted. Under these laws, states are permitted to cancel transport permits and impound vehicles if

necessary. The central government has also allowed states to use impounded vehicles to carry essential commodities without permits and has encouraged states to free up railways and rail terminals for transportation of goods. Delhi, Uttar Pradesh, Gujarat, Andhra Pradesh and Rajasthan have already invoked the ESMA.

¶17. (U) AIMTC has refused to end the strike until their demands are met and has approached political parties from the Left Front for support. Both the Communist (Marxist) Party of India (CPM) and the Bharatiya Janata Party (BJP) have issued a statements supporting the truckers and demanding fuel price cuts. CPM has also requested that the government hold discussions with the AIMTC and offer a bailout package. The strikers have also sought support from opposition leader L.K. Advani and UPA chair Sonia Gandhi.

As Exports Dip, Apparel Industry Requests More Stimulus
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¶18. (U) The Apparel Export Promotion Council (APEC), joined by a number of textile and clothing industry leaders, announced today that the industry will fall far short of their annual targets. Revised data from APEC shows that apparel exports dove 11.29 percent in November, USD $621 million compared to USD $700 million for the same month in 2007. Thus, the period of April to November marks a decline of 0.2 percent in exports compared to the same period in ¶2007. According to APEC, apparel exports will fall 24 percent short of the industry's $11.62 billion target for the current financial year, and forecasts the industry will further decline, totaling only $8.78 billion. The forecasted number is below fiscal year 2007-08's figure of $9.69 billion. APEC blames the global recession, which has caused the closing of hundreds of clothing outlets in the U.S.

and Western Europe. India's exports to the US, which totaled $85 billion in 2007, dropped 11 percent during the last quarter of 2008. The decline has resulted, according to APEC's statistics, in the loss of nearly 500,000 jobs. More job losses are anticipated in the next quarter.

¶19. (U) While India's apparel exports to the US have slowed, apparel exports from Vietnam, Indonesia, and Bangladesh have all increased. APEC blames GOI's trade policy and lack of effective stimulus to the industry for the decrease in global market share. APEC has asked the government to increase the rates of duty drawback and also for income and fringe tax benefits. The Council also claims that basic infrastructure needs to upgraded and labor laws need to be amended to allow the Indian apparel industry to compete with other major apparel exporters.

HAL puts MRO plans on hold

¶20. (SBU) Government-owned aerospace major Hindustan Aeronautics Limited (HAL) put its plans to turn Bangalore's old airport into a Maintenance, Repair, and Overall (MRO) center on hold following Government of India's decision not to invest in the venture. Ashok Baweja, HAL's Chairman, told Consulate Chennai that the GOI's unexpected decision came at the very last moment, putting the company's credibility on the line. A disappointed Baweja told Consulate General Chennai that HAL had lost a potentially promising revenue stream as the MRO would have enabled the company to service both Boeing 737 and Airbus 320s for a wide range of airlines.

Karnataka government talks tough on Kannada signage
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¶21. (SBU) Karnataka's Chief Minister Yeddiyurappa announced on January 1 that 2009 would be a "Kannada implementation year." (Kannada is the state language of Karnataka.) Among the slew of measures announced was the imposition of a USD 250 fine on those establishments that did not carry a Kannada version of their name on their signs. A week after this measure was to have been implemented, however, the government is yet to announce guidelines for enforcement. An official in the Chief Minister's office told Consulate General Chennai that requirements for a Kannada version on signs is already in place but that enforcement had been lax,

suggesting that there would likely be no major changes until a specific complaint was brought to the government's attention.

¶22. (U) Visit New Delhi's Classified Website: http://www.state.sgov/p/sa/newdelhi

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